

## STRATEGY TYPE AND PERFORMANCE: THE INFLUENCE OF SALES FORCE MANAGEMENT

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*The basic premise of the strategy implementation literature is that different business strategies require different configurations of organizational practices to achieve optimal performance. Sales force management is a key functional activity and should contribute to the successful implementation of business strategy. In this study, we examine the relationship between multiple sales force management practices and performance within each of Miles and Snow's (1978) strategy types. The explanatory power of the eight models tested is quite high (incremental adjusted  $R^2 \geq 0.25$  for six of the eight models). Thus, we find substantial support for the general proposition that the different strategy types require individualized profiles of sales force management practices for optimal effectiveness and that sales force management is important to the successful implementation of business strategy. Copyright © 2000 John Wiley & Sons, Ltd.*

### INTRODUCTION

Business strategy implementation is concerned with the fit between the organization's business—or competitive—strategy and its internal processes (Galbraith and Kazanjian, 1986). An appropriate match should contribute to enhanced effectiveness and superior performance. Over the past 15 years a substantial body of empirical research has emerged that considers the match between business strategy and: (1) managerial characteristics (Gupta and Govindarajan, 1984; Slater, 1989), (2) strategic planning system characteristics (Veliyath, 1993), (3) human resource management practices (Balkin and Gomez-Mejia, 1990; Rajagopalan, 1997), (4) technology strategy (Dvir, Segev, and Shenhar, 1993), (5) organizational structure (Powell, 1992), (6) control systems (Govindarajan and Fisher, 1990), (7) corporate—

SBU relations (Golden, 1992), (8) middle management involvement (Floyd and Wooldridge, 1992), and (9) managerial consensus (Homburg, Krohmer, and Workman, 1999).

An additional area that seems to hold promise for contributing to the understanding of strategy implementation is the match between business strategy and marketing policy. We focus on marketing because of its prominent role in the creation of customer value (Day, 1992; Porter, 1985). We specifically consider the sales management element of the marketing mix because sales management, the primary form of promotion for business-to-business marketers, is the activity that most uniquely belongs to marketing. We begin with a brief overview of the relevant literature on business strategy and marketing practice.

### BUSINESS STRATEGY

Business strategy is concerned with how businesses achieve competitive advantage. The Miles and Snow (1978) and Porter (1980) typologies

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are the two dominant frameworks of business strategy in the strategic management and strategic marketing literatures. Miles and Snow (1978) developed a comprehensive framework that addresses the alternative ways in which organizations define and approach their product-market domains (the entrepreneurial problem) and construct structures and processes (the administrative and technical problems) to achieve success in those domains.

Prospectors continuously seek to locate and exploit new product and market opportunities while Defenders attempt to seal off a portion of the total market to create a stable set of products and customers. Analyzers occupy an intermediate position between the two extremes by combining the strengths of both the Prospector and Defender to cautiously follow Prospectors into new product-market domains while protecting a stable set of products and customers. A fourth type, the Reactor, does not have a consistent response to the entrepreneurial problem.

Miles and Snow (hereafter M&S) also proposed that Prospectors, Analyzers, and Defenders would achieve, on average, equal performance (see Zahra and Pearce, 1990, for a review of supporting studies). The implication of this proposition is that there is greater performance variation within strategy types than there is between strategy types which leads again to an emphasis on strategy implementation.

Porter (1980) proposed that the entrepreneurial problem should be viewed as a product of how the firm creates value (i.e., differentiation or low cost) and how it defines its scope of market coverage (i.e., focused or market-wide). Walker and Ruekert (1987) synthesized these typologies of entrepreneurial behavior by discriminating between Low Cost Defenders and Differentiated Defenders. We conducted a pilot study to assess the appropriateness of considering the alternative types of Defender strategies. Interviews with managers who characterized their businesses as Defenders revealed that they could also readily articulate whether differentiation or low cost was the basis for their value proposition.

Although Walker and Ruekert dropped the Analyzer strategy type from their hybrid typology, we believe that the evidence (e.g., James and Hatten, 1995; Slater and Narver, 1993; Zahra and Pearce, 1990) does not warrant this alteration. Thus, the remainder of this study will be con-

cerned with four strategy types—the Prospector, the Analyzer, the Differentiated Defender, and the Low Cost Defender—and how sales force management practices contribute to their successful execution. We do not offer hypotheses for the Reactor type because they seem to represent a small segment of the total population, a finding that was confirmed in this sample.

## **MATCHING MARKETING PRACTICE TO BUSINESS STRATEGY**

Walker and Ruekert (1987) developed a theory, embodied in a set of propositions, of how marketing policies and activities may contribute to the effective implementation of different business strategies. Viswanathan and Olson (1992) developed a conceptual model of the sales management function's role in the implementation of competitive strategy. Empirical research on the business strategy–marketing competency relationship has found that prospector and analyzer organizations place greater emphasis on marketing activities than do defender organizations and that prospector organizations emphasize marketing activities more than analyzer organizations (Conant, Mokwa, and Varadarajan, 1990; McDaniel and Kolari, 1987; McKee, Varadarajan, and Pride, 1989). However, the performance implications of matching marketing practices to different strategy types have not been examined. The objective of this study is to address that issue.

## **SALES FORCE MANAGEMENT AS MARKETING PRACTICE**

Sales force management is subsumed in the M&S administrative problem as it is concerned with the development of selling strategy and sales force structure, control, and compensation. In order to test whether or not linkages between competitive strategy and sales force management actually exist—and, if so, how strong they are—we focus on five key sales management practices. These practices are representative of the three broad critical sales management issues identified by Churchill, Ford and Walker (1990) (i.e., sales plan formulation, implementation, and evaluation). The practices include: (1) selling strategy (e.g., Dwyer, Schurr and Oh, 1987;

Ganesan, 1994; Morgan and Hunt, 1994), (2) internalization of selling activities (Anderson and Weitz, 1986), (3) extent of managerial supervision (Anderson and Oliver, 1987; Oliver and Anderson, 1994), (4) focus of salesperson control (e.g., Anderson and Oliver, 1987; Cravens *et al.*, 1993; Jaworski, 1988), and (5) salesperson compensation plans (e.g., Anderson and Oliver, 1987; Cravens *et al.*, 1993; Jaworski, 1988; Oliver and Anderson, 1994). In this section we describe the range of alternatives within these practices and offer hypotheses for which alternatives should lead to superior performance for the Prospector, Analyzer, Low Cost Defender, and Differentiated Defender strategy types.

### Selling strategy

Over the past two decades the development of strong and enduring relationships with key customers has become accepted as a foundation for competitive advantage. Relationship selling is based on interdependence between sellers and buyers, sharing of critical information that is based on trust between the two parties, and longevity of the relationship that enables both parties to enjoy financial rewards from coordinated strategic investments (Ganesan, 1994; Morgan and Hunt 1994; Shapiro, 1988). This relationship gives the seller greater insight into the buyer's latent needs, enabling the seller to develop new offerings before the competition or to augment commodity-like products with high value-added services (Levitt, 1980).

However, relationship selling is an intensive and expensive activity. At the opposite end of the continuum of selling strategies is transaction selling, a discrete activity with the transaction being the near-term outcome of the selling effort. Transaction selling is most appropriate for fairly simple products that require little service or sales support (Shapiro, 1988). Thus, transaction selling tends to be more efficient for standardized products while relationship selling is more effective for complex products or products that have a degree of risk associated with them.

Prospectors, with their emphasis on product and market development, should work closely with lead-users to identify problems and define solutions (Moore, 1995; Slater and Narver, 1998). Analyzers also work closely with customers to understand the shortcomings of Prospectors'

efforts and develop an enhanced version of the product that corrects deficiencies or targets neglected market segments. On the other hand, Low Cost Defenders compete primarily on price. Their quest for efficiency diminishes their ability to make substantial investments in long-term relationships. The preceding propositions are consistent with Slater and Narver's (1993) finding that Prospectors and Analyzers benefited from being market oriented, which we believe is a prerequisite to having a relationship strategy, while Low Cost Defenders did not. Finally, the objective of Differentiated Defenders is to protect key customers or markets by continuously providing superior value that is based on product benefits or services. This strategy indicates a need for close customer ties. Thus:

*Hypothesis 1a: Prospectors achieve superior performance when utilizing a relationship selling strategy.*

*Hypothesis 1b: Analyzers achieve superior performance when utilizing a relationship selling strategy.*

*Hypothesis 1c: Low Cost Defenders achieve superior performance when utilizing a transaction selling strategy.*

*Hypothesis 1d: Differentiated Defenders achieve superior performance when utilizing a relationship selling strategy.*

### Contracting of selling activities

Transaction cost theory tells us that markets (contracting) and hierarchies (firms) are alternative mechanisms for coordinating transactions, and that the choice of one or the other is based on the respective costs associated with the transaction (Williamson, 1975). A transaction occurs when a good or service is transferred across a separable interface, such as when a firm contracts with independent sales representatives to facilitate transactions. The alternative is for the firm to integrate forward and add the selling activity to its activities in product development and production (Anderson and Weitz, 1986).

The attributes of transactions that are of special interest are ones in which potential for a contractor to act opportunistically is significant and

include dependence on the owner of a specific asset, small numbers of potential contractors, and imperfect information. The theory predicts that firms will expand the scope of their activities when opportunistic potential is significant and will transact with contractors when threats due to asset specificity, small numbers, and imperfect information are not significant (cf. Teece, 1984).

Prospectors and Analyzers both seek opportunities in turbulent markets where market information is a critical asset (e.g., Dickson, 1992; Slater and Narver, 1995). Organizational competencies are embedded in key personnel such as sales people and marketers (Miles and Snow, 1978). Contracting with independent distributors could seriously hinder the rapid transfer of market knowledge. Furthermore, independent distributors would not be likely to invest in activity-specific assets.

Conversely, Low Cost Defenders are typically sellers of commodity products and, as such, are not as vulnerable to asset specificity or to rapidly changing market information. Differentiated Defenders, though, create customer value by providing superior customer service. This service capability is an asset that must be built and protected. Thus:

*Hypothesis 2a: Prospectors achieve superior performance when employing an internal sales force.*

*Hypothesis 2b: Analyzers achieve superior performance when employing an internal sales force.*

*Hypothesis 2c: Low Cost Defenders achieve superior performance when contracting with an external sales force.*

*Hypothesis 2d: Differentiated Defenders achieve superior performance when employing an internal sales force.*

### Extent of supervision

The extent of supervision required is concerned with the degree to which sales people are monitored and directed. Low supervision requirements imply that sales people are knowledgeable and are best able to determine the appropriate activities to achieve the firm's goals and/or that the impor-

tance of retaining an individual account is relatively low. High supervision implies that sales people require substantial guidance to select activities that will lead to the accomplishment of their goals and/or that the retention of a specific account is of high importance (Anderson and Oliver, 1987; Oliver and Anderson, 1994; Anderson and Weitz, 1986).

The need for responsiveness to emerging market opportunities by Prospector organizations requires flexibility, decentralized decision making, and rapid communication from the field to marketing or to R&D. Salespersons in Prospector firms must be able to explain and demonstrate the benefits of New-to-the-World products to their primary customer group, early adopters. Because many of these products are technology driven, salespersons in Prospector businesses must have a strong grasp of the physical knowledge associated with the product's technology. These conditions suggest that Prospector businesses will benefit from comparatively low levels of supervision. This must be balanced with the objective of maintaining strong relationships with key customers, which requires some managerial oversight. Thus, we expect that high-performing Prospector businesses will practice neither of the extremes of low or high levels of sales force supervision and, instead, practice moderate salesperson supervision.

Miles and Snow note that the entrepreneurial problem faced by Analyzer businesses is determining how to locate and exploit new product and market opportunities while retaining a base of traditional customers. To accomplish this, Analyzers must be able to quickly follow the lead of key Prospectors. At the level of the sales function this means salespersons must be able to respond quickly to threats as well as to opportunities created by Prospector organizations. These conditions call for salespersons with considerable technical and customer knowledge, thus requiring relatively little oversight. However, the need to maintain a substantial base of traditional customers argues in favor of more extensive levels of supervision to ensure that routine transactions are handled expeditiously and with the degree of service required by key accounts. The dual nature of the sales job in Analyzer firms also suggests that a moderate level of supervision is most effective.

Porter (1980) argues that cost minimization in

areas like R&D, service, and marketing is the hallmark of overall cost leaders. Walker and Ruekert also suggest that high sales force expenditures could negatively impact firm performance as they could be inefficient uses of resources. Given this lesser emphasis on personal selling and our expectation that Low Cost Defenders will rely heavily on outside sales reps to sell their products, we predict that high performers will engage in comparatively low levels of supervision.

In direct contrast, Differentiated Defenders are predicted to benefit from high levels of supervisory control over their sales forces. Walker and Ruekert (1987) predict that Differentiated Defenders will have relatively high sales force expenditures. Maintaining the loyalty of established customers is essential, as the cost of replacing a lost customer will be very high. We predict that high-performing Differentiated Defenders will engage in extensive sales force oversight to prevent the loss of long-term customers because of the substantial profit stream associated with them and because of the considerable costs incurred in trying to replace them. Thus:

*Hypothesis 3a: Prospectors achieve superior performance when utilizing moderate supervisory control.*

*Hypothesis 3b: Analyzers achieve superior performance when utilizing moderate supervisory control.*

*Hypothesis 3c: Low Cost Defenders achieve superior performance when utilizing low supervisory control.*

*Hypothesis 3d: Differentiated Defenders achieve superior performance when utilizing high supervisory control.*

### Salesperson control

Regardless of the extent of supervision imposed on individual salespersons or independent reps, managers must articulate the expectations of the salesperson or the sales force, and monitor performance compared to expectations. While different competitive strategies require different and varied selling behaviors, ultimately the sales force must achieve certain outcomes related to revenue or profit targets.

Drawing from organization theory (e.g., Eisenhardt, 1985), Anderson and Oliver (1987) classified sales force control systems into two types: outcome-based and behavior-based. Outcome-based control focuses on the results that a salesperson achieves. Sales people are allowed to determine the most appropriate means to achieve their objectives. Sales people must be sufficiently knowledgeable to understand and respond to signals from a changing marketplace and be sufficiently entrepreneurial to take the risk associated with independent action.

Behavior-based control systems ensure consistency of action by prescribing and monitoring the activities of the sales force. Management presumes to understand which behaviors will achieve the desired results. In this environment, management assumes risk to gain control of sales force behavior. In behavior-based control systems, managerial direction is substituted for salesperson autonomy (Anderson and Oliver, 1987).

As predicted in Hypothesis 1, high-performing Prospectors, Analyzers, and Differentiated Defenders are all expected to utilize a relationship selling strategy. However, the nature of these relationships cannot be characterized as identical. Prospectors seek customers who are willing to buy new products that utilize cutting-edge technologies. To accomplish this, Prospectors require a sophisticated and knowledgeable sales force. Superior performance will be achieved when outcomes, both short-term and long-term, are collaboratively set and the salesperson is given the autonomy to determine the most appropriate behaviors. Thus, Prospector firms should adopt outcome-based control systems for their sales forces.

Because Analyzers place great emphasis on maintaining a base of traditional customers while simultaneously exploiting new market opportunities, they must utilize a control system that defines expectations for results in some situations and prescribes behaviors in others. Thus, we predict that these firms will adopt a mixed control system.

Low Cost Defenders are characterized by having comparatively low prices as well as lower levels of service (Walker and Ruekert, 1987). As their customers tend to base purchase decisions primarily on price, there are few behaviors a salesperson or rep could be measured on other than the ability to close deals. Consequently,

high-performing Low Cost Defenders are the group most likely to adopt pure outcome-based control systems (Govindarajan and Fisher, 1990).

In contrast, the competitive advantage of Differentiated Defenders lies in their ability to create customer value in a way that is perceived as unique. The development of close customer relationships provides essential information regarding unique value creation opportunities. Key success factors for Differentiated Defenders include effective communication of this information between the sales force and R&D or between the sales force and production, and high levels of service before and after the sale. As effectiveness in accomplishing these factors is very difficult to measure in the short term, a behavior-based control system is most appropriate for Differentiated Defenders (Govindarajan and Fisher, 1990). Thus:

*Hypothesis 4a: Prospectors achieve superior performance when utilizing an outcome-based control system.*

*Hypothesis 4b: Analyzers achieve superior performance when utilizing a mixed control system.*

*Hypothesis 4c: Low Cost Defenders achieve superior performance when utilizing an outcome-based control system.*

*Hypothesis 4d: Differentiated Defenders achieve superior performance when utilizing a behavior-based control system.*

## Compensation

Compensation systems span a spectrum from straight salary or 'fixed' to straight commission or 'incentive-based.' Fixed compensation systems offer greater protection from risk to the salesperson. Sales people are more likely to place the organization's needs above their own in this situation. Sales people tend to be more loyal to the organization and are willing to follow management directives more closely. Incentive-oriented compensation systems shift risk from the firm to the salesperson. They require entrepreneurial sales people who tend to place their personal goals above those of the organization. These sales people often have low loyalty to the organization and may be easily enticed to switch employers.

Between these two extremes lie hybrid systems that provide both a base salary and some form of commission or bonus as an incentive. These hybrid systems are used in over 80 percent of businesses (Churchill *et al.*, 1990: 535). Thus, the issue is the proportion of fixed compensation (i.e., salary) to incentive-based compensation (i.e., commission) in the overall compensation plan rather than the adoption of one extreme or the other.

Prospector organizations succeed by being innovative and entrepreneurial. '[T]he salesperson is made an entrepreneur, responsible for his or her own performance but free to select the methods of achievement' (Anderson and Oliver, 1987: 77). While Anderson and Oliver are describing the environment of an incentive-based compensation system, they could easily be describing a Prospector organization.

Because of their dual emphasis on change and stability, Analyzers should provide a balance between salary and commission. The risk of pursuing new technologies must be rewarded, but not to such an extent that the stable base of customers is ignored.

Conventional wisdom tells us that a salary-based compensation system is not appropriate when contracting with an independent sales force, as we hypothesized would be the case for Low Cost Defenders. When efficiency is the dominant objective, an incentive-oriented compensation system is considered most effective (Anderson and Weitz, 1986).

Sales people in Differentiated Defender organizations generally should be motivated by salary to encourage conformity and ensure a standardized product-service offering. Of course cash flows are still an important element for keeping Differentiated Defender businesses healthy, so some incentive to generate sales must be a component of the compensation system. Thus:

*Hypothesis 5a: Prospectors achieve superior performance when utilizing a predominantly incentive-oriented compensation system.*

*Hypothesis 5b: Analyzers achieve superior performance when utilizing a balanced compensation system.*

*Hypothesis 5c: Low Cost Defenders achieve superior performance when utilizing a predominantly incentive-oriented compensation system.*

*Hypothesis 5d: Differentiated Defenders achieve superior performance when utilizing a predominantly salary-based compensation system.*

## SAMPLE

We purchased a commercial mailing list of 1000 sales executives in manufacturing firms operating in 24 different 2-digit SIC codes primarily from the 20 and 30 series to serve as our sampling frame. We mailed each executive a letter explaining the general purpose of the study, a copy of the questionnaire, and a return envelope. The questionnaire defined the meaning of business unit and asked respondents to refer either to the largest SBU in their organization or the one they were most familiar with. Two weeks after the first mailing we sent a follow-up letter with a duplicate copy of the questionnaire and another return envelope. We received 278 usable responses that, after accounting for undeliverables, constituted a 28 percent response rate.

Although nonresponse bias is always a concern in survey research, this response rate is within the range of typical response rates for studies of this type. Furthermore, Armstrong and Overton (1977) found that late responders more closely resemble nonresponders than do early responders. Significant differences between late responders and early responders would indicate the presence of nonresponse bias. We found no difference between early and late responders on key measures.

## Measures<sup>1</sup>

We compute values for the multi-item scales as simple averages of the scores for those items since the number of items in each scale varies.

*Performance* is a complex multidimensional construct (e.g., Chakravarthy, 1986; Kaplan and Norton, 1996; Walker and Ruekert, 1987) that is influenced by both the level of analysis (e.g., functional vs. business strategy) and strategy type (e.g., Prospector vs. Defender). We focus on profitability and market performance (i.e., sales and market share effectiveness) because they are

widely recognized as two of the most important indicators of financial performance (e.g., Capon, Farley, and Hoenig, 1990; Kaplan and Norton, 1996; Varaiya, Kerin, and Weeks, 1987) and because of their relevance regardless of strategy level or strategy type. We use Babakus *et al.*'s (1996) 7-point measures of profitability and market performance.

We have not discriminated between profitability and market performance in our hypotheses because managers often make trade-offs between the two (Kaplan and Norton, 1996; Miles and Snow, 1978; Walker and Ruekert, 1987). If there is a significant relationship between an independent variable and both dependent variables, we characterize this as support for the hypothesis. If there is a significant relationship between an independent variable and only one dependent variable, we characterize this as partial support for the hypothesis and specify to which performance measure the independent variable is related.

*Strategy Type* is assessed using the self-typing paragraph approach that is commonly used in both strategic management research (e.g., James and Hatten, 1995) and marketing strategy research (McDaniel and Kolari, 1987; McKee *et al.*, 1989). Several studies (Conant *et al.*, 1990; James and Hatten, 1995; Shortell and Zajac, 1990) have demonstrated that this is a valid measurement approach. In this study, 33 percent of respondents characterized their businesses as Prospectors, 15 percent as Analyzers, 15 percent as Low Cost Defenders, 32 percent as Differentiated Defenders, and 5 percent as Reactors. Although the numbers of Analyzers and Low Cost Defenders are considerably smaller than those for Prospectors and Differentiated Defenders, the numbers are adequate for hypothesis testing.

*Selling Strategy* is assessed with Heide and Miner's (1992) 'Extendedness of Relationship' scale. This four-item (7-point) scale assesses the seller's orientation towards the development of long-term relationships with buyers. A high score indicates a relationship selling strategy.

*Internalization of Selling Activities* is assessed with a single-item, 11-point scale that asks respondent to indicate the proportion of sales revenues generated by members of your own sales force compared to the proportion generated by independent sales representatives. The scale goes from '0 percent by Company Sales

<sup>1</sup> All of the measures are contained in the Appendix.



Force/100 percent by Independent Sales Representatives' to '100 percent by Company Sales Force/0 percent by Independent Sales Representatives.' A high score indicates extensive use of an internal sales force.

*Extent of Supervision/Autonomy* is assessed with Oliver and Anderson's (1994) eight item (7-point) scale. A high score indicates high autonomy and low supervisory control.

*Salesperson Control System* is measured with Babakus *et al.*'s (1996) seven-item (7-point) 'Reward' scale that assesses whether sales people are evaluated and rewarded based on behaviors or on outcomes. A high score indicates outcome-based control while a low score indicates behavior-based control. Babakus *et al.* (1996) provided evidence of unidimensionality and discriminant validity in a confirmatory factor analysis.

*Compensation* is measured with an 11-point scale ranging from '0 percent by Commission/100 percent by Salary' to '100 percent by Commission/0 percent by Salary.' This is similar to the two-item measure used by Oliver and Anderson (1994) that asks for the percent of salary in the compensation plan in both the present and last pay period. A high score indicates a commission-based compensation system.

We also control for the following market-level and firm-level influences:

*Firm Size* often confers performance benefits such as superior cost position and stronger reputation. Smith, Guthrie, and Chen (1989) found that firm size is an important moderator of the strategy-performance relationship. Respondents were asked to indicate which one of nine categories most closely reflected their business unit's annual gross sales.

*Product Complexity* is an element of a differentiation strategy. More complex products should provide buyers with additional benefits. The provision of superior benefits has broad implications for performance, particularly within strategy type. For example, sales force design might be quite different for Prospectors that market relatively simple products than for those that market complex products. We use a two-item (7-point) scale to assess complexity.

*Market Turbulence* is primarily concerned with competitive hostility, potentially the most influential of Porter's (1980) five forces of industry structure. Because of this influence, market turbu-

lence should have an impact on both strategy selection and on firm performance. We use Jaworski and Kohli's (1993) five-item (7-point) scale.

## ANALYTICAL APPROACH

Table 1 contains a correlation matrix of the continuously scaled variables and descriptive statistics for each of the variables including Cronbach's  $\alpha$ , where appropriate.

We follow the lead of others who have assessed the characteristics of the individual strategy types (e.g., Dvir *et al.*, 1993; McDaniel and Kolari, 1987; McKee *et al.*, 1989) by conducting our analyses within each strategy type. We conduct two OLS regression analyses for each strategy type, the first using market performance as the dependent variable and the second using profitability as the dependent variable. Each regression equation includes the three control variables and the five hypothesis-related variables.

To test for a U-shaped relationship, we use a second-order polynomial regression model in which the independent variable appears to the first and second powers (Neter, Wasserman, and Kutner, 1983). We test for U-shaped relationships between all of the independent variables and performance. The key to whether a relationship is U- or inverted U-shaped lies in the second derivative that contains only the coefficient for the squared term. Thus, for  $y = a + bx + cx^2$ , the first derivative is  $b + 2cx$  (meaning a maximum or a minimum at  $x = b/2c$ ) and the second derivative is  $2c$ . If the second derivative is positive ( $c > 0$ ), it is a U-shaped curve. If  $c < 0$ , it is an inverted U.

A negative sign for the squared term indicates that the U-shaped relationship is inverted. The regression models contain statistics for both the first power form of the independent variable and for the second power form when it is statistically significant. In Table 2 we report the standardized regression coefficient (and its significance level) and the associated *t*-statistic.

We also tested for violations of the assumptions of independence, normal distribution of error terms, and homoscedasticity in the OLS analyses through the calculation of variance inflation factors, the Kolmogorov-Smirnov one-sample test, and White's test, respectively (Table 3).

We find no evidence of damaging multi-



Table 1. Descriptive statistics, Cronbach's  $\alpha$ , and correlation coefficients ( $n = 278$ )

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
Market performance	4.96	1.04	$\alpha = 0.874$									
Profitability	5.02	1.18	0.490 <sup>b</sup>	$\alpha = 0.809$								
Selling Strategy	4.11	1.10	0.319 <sup>b</sup>	0.316 <sup>b</sup>	$\alpha = 0.785$							
Internalization of selling activity	8.06	2.37	0.248 <sup>b</sup>	0.131 <sup>a</sup>	0.214	NA						
Extent of supervision	2.63	0.80	-0.279 <sup>b</sup>	-0.289 <sup>b</sup>	-0.241 <sup>b</sup>	-0.021	$\alpha = 0.768$					
Salesperson control system	4.59	0.94	0.241 <sup>b</sup>	0.159 <sup>a</sup>	0.167 <sup>b</sup>	0.043	-0.306 <sup>b</sup>	$\alpha = 0.697$				
Compensation	4.93	3.07	0.104	0.040	-0.025	-0.105	0.000	0.286 <sup>b</sup>	NA			
Firm Size	2.35*	1.11	0.168 <sup>b</sup>	0.074	0.015	0.075	0.005	0.032	-0.031	NA		
Market turbulence	4.81	1.17	-0.083	-0.179 <sup>b</sup>	-0.054	0.046	-0.046	0.131 <sup>a</sup>	-0.095	0.124 <sup>a</sup>	$\alpha = 0.749$	
Product complexity	4.41	1.77	-0.064	-0.101	0.025	-0.081	0.011	-0.031	-0.142	0.010	0.201 <sup>b</sup>	$\alpha = 0.853$

<sup>a</sup> $p \leq 0.05$ ; <sup>b</sup> $p \leq 0.01$ 

\*Average business unit size is in the \$10–15 million range

Table 2. Results of multiple regression analysis within strategy type: Standardized regression coefficient/*t*-statistic

	Prospectors ( <i>n</i> = 93)			Analyzers ( <i>n</i> = 42)			Low Cost Defenders ( <i>n</i> = 43)			Differentiated Defenders ( <i>n</i> = 89)		
	Market performance	Profitability	Market performance	Market performance	Profitability	Market performance	Market performance	Profitability	Market performance	Market performance	Profitability	Market performance
H1: Selling strategy	0.031/0.35	0.216 <sup>b</sup> /2.02	0.241/1.61	0.286 <sup>b</sup> /2.17	0.004/0.02	1.02/0.73	-0.623/-1.56	0.142/1.94	-0.623/-1.56	0.142/1.94		
H2: Internalization of selling activity	1.28 <sup>a</sup> /2.74	0.050/0.46	0.465 <sup>c</sup> /3.08	0.594 <sup>c</sup> /5.03	-0.049/-0.31	-0.334 <sup>c</sup> /-2.67	0.957 <sup>b</sup> /2.42	1.067 <sup>a</sup> /2.80	0.957 <sup>b</sup> /2.42	1.067 <sup>a</sup> /2.80		
H3: Extent of supervision	-1.01 <sup>b</sup> /-2.15	1.41 <sup>b</sup> /2.32	-1.63 <sup>a</sup> /-1.92	-0.013/-0.097	-0.161/-0.96	0.012/0.071	0.209 <sup>a</sup> /2.50	-0.906 <sup>b</sup> /-2.38	0.209 <sup>a</sup> /2.50	-0.906 <sup>b</sup> /-2.38		
H4: Salesperson control system	2.39 <sup>a</sup> /4.72	-1.41 <sup>b</sup> /-2.30	1.93 <sup>b</sup> /2.15	0.373 <sup>c</sup> /2.84	0.268/1.43	0.480 <sup>c</sup> /3.19	-1.27 <sup>c</sup> /-3.23	-1.74 <sup>c</sup> /-4.74	-1.27 <sup>c</sup> /-3.23	-1.74 <sup>c</sup> /-4.74		
H5: Compensation	-2.37 <sup>a</sup> /-4.66	0.231 <sup>a</sup> /1.92	0.317 <sup>b</sup> /2.08	0.606	0.147	0.611	0.874 <sup>b</sup> /2.21	1.29 <sup>a</sup> /3.54	0.874 <sup>b</sup> /2.21	1.29 <sup>a</sup> /3.54		
Firm size	0.120/1.35	0.045/0.42	1.75 <sup>a</sup> /3.32	-0.051/-0.44	0.269 <sup>a</sup> /1.69	-0.032/-0.27	0.062/0.861	-0.290 <sup>c</sup> /4.39	0.062/0.861	-0.290 <sup>c</sup> /4.39		
Market turbulence	0.183 <sup>b</sup> /2.11	-0.069/-0.67	-0.375 <sup>b</sup> /-2.26	0.202/1.56	0.507 <sup>c</sup> /3.62	-0.179/-1.26	-0.726 <sup>c</sup> /-2.62	0.252 <sup>c</sup> /-3.57	-0.726 <sup>c</sup> /-2.62	0.252 <sup>c</sup> /-3.57		
Prod. Complexity	-0.117/-1.20	-0.032/-0.27	-0.289 <sup>b</sup> /-1.98	-0.250 <sup>b</sup> /-1.99	0.199/1.28	-0.121/-0.84	0.612 <sup>b</sup> /2.25	0.022/0.33	0.199/1.28	0.022/0.33		
Adjusted R <sup>2</sup>	0.106/1.17	0.033/0.31	0.172/1.10	0.080/0.65	0.008/0.05	-0.165/-1.42	-0.186 <sup>c</sup> /-2.71	-0.238 <sup>c</sup> /-3.66	-0.186 <sup>c</sup> /-2.71	-0.238 <sup>c</sup> /-3.66		
Adjusted R <sup>2</sup> for full model	0.365	0.155	0.436	0.606	0.147	0.248	-0.156 <sup>b</sup> /-2.05	-0.128 <sup>a</sup> /-1.88	-0.156 <sup>b</sup> /-2.05	-0.128 <sup>a</sup> /-1.88		
F-Statistic	7.12 <sup>a</sup>	2.45 <sup>b</sup>	4.17 <sup>c</sup>	7.50 <sup>c</sup>	3.89 <sup>c</sup>	8.33 <sup>c</sup>	0.615	0.583	0.615	0.583		
							0.623	0.664	0.623	0.664		
							14.21 <sup>c</sup>	18.36 <sup>c</sup>	14.21 <sup>c</sup>	18.36 <sup>c</sup>		

<sup>a</sup>*p* ≤ 0.10; <sup>b</sup>*p* ≤ 0.05; <sup>c</sup>*p* ≤ 0.01 (2-tailed tests)

Δ Adjusted R<sup>2</sup> is the reduction in the variation of the dependent variable that is gained by adding the hypothesis-related variables to the model with only the control variables. It is possible for the Δ adjusted R<sup>2</sup> to be greater than the adjusted R<sup>2</sup> for the full model if the decrease in SSE is more than offset by the loss of a degree of freedom from adding an additional independent variable (Neter *et al.*, 1983). The *F*-statistic is for the full model.

Table 3. Regression diagnostics

	Prospectors ( <i>n</i> = 93)		Analyzers ( <i>n</i> = 42)		Low Cost Defenders ( <i>n</i> = 43)		Differentiated Defenders ( <i>n</i> = 89)	
	Market performance	Profitability	Market performance	Profitability	Market performance	Profitability	Market performance	Profitability
Maximum variance inflation factor <sup>a</sup>	1.524	1.524	1.845	1.845	2.058	2.058	1.382	1.382
Kolmogorov–Smirnov one-sample test <sup>b</sup>	0.77	0.74	0.66	0.68	0.87	0.46	0.61	1.40
White test <sup>c</sup>	11.85	11.59	12.99	8.39	23.84	21.16	15.65	9.53

<sup>a</sup>A maximum variance inflation factor in excess of 10.0 indicates that multicollinearity may be unduly influencing the least-squares estimates. VIFs are not calculated for the second-order factors.

<sup>b</sup>The Kolmogorov–Smirnov one-sample test indicates how well the residuals fit a normal distribution. A value below 1.28 indicates that the null hypothesis of normal distribution cannot be rejected.

<sup>c</sup>The value calculated with the White test is compared with the critical value of chi-square with (# of IVs) degrees of freedom. If the value from the White test < the critical value of chi-square (typically at the  $p = 0.05$  level), the null hypothesis of homoscedasticity cannot be rejected. In the case of Low Cost Defenders, the null hypothesis of homoscedasticity is rejected at the  $p = 0.05$  level but not at the  $p = 0.01$  level.

collinearity, evidence of a skewed distribution of residuals for Differentiated Defenders with profitability as the dependent variable, and evidence of moderate heteroscedasticity (the null hypothesis of homoscedasticity cannot be rejected at  $p \leq 0.01$  instead of the common standard of  $p \leq 0.05$ ) for the Low Cost Defender subsample. Weighted least squares should be used when heteroscedasticity is present to derive efficient parameter estimates (Neter *et al.*, 1983; Pindyck and Rubinfeld, 1991). Thus, results for Low Cost Defenders in Table 2 are obtained by weighted least squares.

## RESULTS

In the following paragraphs we discuss the results in the context of each of the strategy types. This allows us to develop a profile of the sales force management practices that are associated with increased performance within each strategy type. If there is a significant relationship between an independent variable and both dependent variables, we characterize the strategy type as high performing and the hypothesis as supported. If there is a significant relationship between an independent variable and only one dependent variable, we specify which dependent variable is in the

relationship and characterize the hypothesis as partially supported.

For *Prospectors*, relationship selling tends to be associated with increased profitability (indicating that Hypothesis 1a is partially supported). Moderate levels of supervision (Hypothesis 3a supported) and outcome control systems (Hypothesis 4a supported) also seem to be associated with increased performance for Prospectors. Instead of relying primarily on an internal sales force, higher market performance Prospectors seem to strike a balance between using an internal sales force and independent sales representatives (Hypothesis 2a rejected). Outcome control systems may reduce the risk associated with the higher than expected reliance on independent sales reps. Although the relationship between compensation system and both performance measures is in the hypothesized direction, the relationship is not significant (Hypothesis 5a rejected).

To summarize, higher-performing Prospectors appear to build strong relationships with customer organizations to develop a clear understanding of their latent needs, which provides the foundation for the Prospector's product development efforts. Because they motivate the sales force by focusing on what is produced (outcome), Prospectors allow

their sales forces, whether internal or independent, to work with moderate levels of supervision.

For *Analyzer* organizations relationship selling, which gives them insight into opportunities that Prospectors may have overlooked, also seems to be associated with increased profitability (indicating that Hypothesis 1b is partially supported). Because of their fluid orientations, Analyzer organizations require the clear communication channels that come from having primarily internal sales forces (Hypothesis 2b supported). Surprisingly, either high or low levels of sales manager supervision tend to be associated with increased market performance in Analyzer organizations (Hypothesis 3b rejected). This finding may be due to the dual nature of the entrepreneurial and administrative challenges which could lead to organizational instability and require lesser or greater management direction as they shift between exploiting new opportunities and protecting part of their domain. Instead of having a balance between outcome and behavior-based control systems, higher-performing Analyzers seem to place the greatest emphasis on outcome (Hypothesis 4b rejected). To reduce some of the risk associated with the dual nature of the entrepreneurial and administrative challenges, a balance between salary-based compensation and commission-based compensation in their reward structures appears to be associated with increased market performance for Analyzers (indicating partial support for Hypothesis 5b).

Thus, higher-performing Analyzers seem to pursue a relationship selling strategy and use an internal sales force to accomplish this and to deal with the instability in their strategic focus. They utilize an outcome-based control system, and reduce risk to the firm by using moderately high levels of supervision to provide clear direction to sales force members and seem to reduce risk to the salesperson by balancing commission-based compensation with a salaried foundation.

Counter to our prediction, *Low Cost Defenders* do not seem to benefit from either selling strategy (Hypothesis 1c rejected). For Low Cost Defenders an external sales force is associated with increased profitability (indicating that Hypothesis 2c is partially supported). With regard to the level of management supervision we failed to find support for the TCA model that suggested low levels of hierarchical control would be associated with higher performance (Hypothesis

3c rejected). Consistent with our predictions, for Low Cost Defenders outcome-based control systems tend to be associated with increased profitability (indicating that Hypothesis 4c is partially supported) and incentive-based compensation systems are associated with increased market performance (indicating partial support for Hypothesis 5c). These findings are consistent with the use of independent contractors.

Consistent with Porter's (1980) theory, the picture of the successful Low Cost Defender that emerges is an organization that outsources its selling function to concentrate on its core competency, which is production. To obtain desired results, more profitable Low Cost Defenders seem to use an outcome-based control system and superior market performance Low Cost Defenders seem to utilize commission-based compensation.

For *Differentiated Defenders*, a relationship selling strategy is associated with increased profitability. This enables them to understand how they should differentiate in order to create superior customer value. However, higher market performing Differentiated Defenders may also use a transaction-based selling strategy to maximize selling opportunities, at least in the short run (thus indicating that Hypothesis 1d is partially supported). Consistent with Hypothesis 2d, higher-performing Differentiated Defenders rely on an internal sales force. However, somewhat counter to Hypothesis 2d, the most profitable Differentiated Defenders seem to utilize some independent representatives to keep their costs low (indicating partial support for Hypothesis 2d). For Differentiated Defenders, either high or low levels of supervision seem to be associated with increased performance (Hypothesis 3d partially supported). For Differentiated Defenders behavior-based control systems and salary-oriented compensation systems are associated with increased profitability (indicating partial support for Hypotheses 4d and 5d).

Our findings are consistent with Walker and Ruekert's (1987) proposition that Differentiated Defenders will benefit from greater oversight by sales management than will Low Cost Defenders because of the critical role that the sales function plays in maintaining a differentiated position in the market. This is supported by the greater reliance on an internal sales force and the use of moderate levels of supervision coupled with a greater emphasis on developing and maintaining

strong customer relationships. Furthermore, the emphasis on long-term relationships rather than on individual transactions is consistent with the findings of a behavior-based control system and a salary-oriented compensation system.

The results of the hypothesis tests are summarized in Table 4.

## DISCUSSION

This paper complements previous work on marketing's role in the implementation of business strategy (e.g., Conant *et al.*, 1990; McDaniel and Kolari, 1987; McKee *et al.*, 1989; Slater and Narver, 1993; Walker and Ruekert, 1987). It is also the first study, to our knowledge, to make use of Walker and Ruekert's (1987) finer-grained distinction between Low Cost Defenders and Differentiated Defenders. Managers recognize a difference between the two strategy types and it appears that different sales force management practices are required to successfully implement them. We encourage future researchers who use the M&S typology to include this refinement.

Although the study utilized an accepted research design, made use of many published measures that produced acceptable reliability scores, and achieved a relatively high response rate, the study has the weaknesses that are common to this type of research. First, as a cross-sectional study, we can only draw conclusions about association, not causation. We also used two single-item measures. While we believe they have face validity and reliably capture the domain of the construct, multiple-item measures generally are preferable. We also relied on a single informant within each organi-

zation. While we believe these individuals have the greatest knowledge about both business strategy and sales force management, multiple respondents in an organization are preferable. Finally, while the number of control variables used falls within the standard range for a study of this type, other control variables and sales force management variables should be considered for use in future studies on this topic. These might include average transaction size, number of products handled by the sales force, number of customers, and sales force structure (product vs. market).

The high incremental adjusted  $R^2$ s, after accounting for performance variation associated with control variables, and the large number of significant relationships between the sales management practice variables and performance (25 out of 40 potential relationships) strongly suggest that sales management practices influence the successful implementation of different strategy types. Of course the achievement of congruence between business strategy and sales force management practice will not, by itself, ensure business unit success. Successful strategy execution requires the alignment of all functional level strategies.

We believe there is more work to be done on how marketing can facilitate the implementation of business strategy. For example, we studied sales force management practices in what are primarily industrial products firms. An analogy in consumer products firms would be the structure and control of brand management systems. What type of fit between business strategy types and different brand management structures, control systems, and compensation systems leads to superior performance? What strategy type would benefit most from a market management system?

Table 4. Conclusions from hypothesis tests

	Prospectors	Analyzers	Low Cost Defenders	Differentiated Defenders
H1: Selling strategy	Relationship <sup>ps</sup>	Relationship <sup>ps</sup>	Transaction <sup>r</sup>	Relationship <sup>ps</sup>
H2: Internalization of selling activity	Internal <sup>r</sup>	Internal <sup>s</sup>	External <sup>ps</sup>	Internal <sup>ps</sup>
H3: Extent of supervision	Moderate <sup>s</sup>	Moderate <sup>r</sup>	Low <sup>r</sup>	High <sup>ps</sup>
H4: Salesperson control system	Outcome <sup>s</sup>	Mixed <sup>r</sup>	Outcome <sup>ps</sup>	Behavior <sup>ps</sup>
H5: Compensation	Incentive <sup>r</sup>	Balanced <sup>ps</sup>	Incentive <sup>ps</sup>	Salary <sup>ps</sup>

s, supported; ps, partially supported; r, rejected

Is the internal competition inherent to brand management systems more beneficial for some strategy types than for others?

Another key decision area is pricing. There are, of course, several pricing philosophies. Is value-based pricing appropriate regardless of strategy? Within a value-based pricing framework, managers must still determine how much of an inducement to give to customers to switch suppliers or to switch from solution to their generic problem to another solution. Is there a level of inducement that is most appropriate for Prospectors and another for Low Cost Defenders? This is a question that has received little or no attention.

A final area that we suggest warrants attention is channel structure. Channel structure encompasses both number and types of intermediaries, as well as relationships with intermediaries. We found that high-performing Low Cost Defenders made extensive use of independent distributors. How do they manage those relationships for maximum effectiveness?

## CONCLUSION

Marketing does not operate in a vacuum. Marketing decisions are strongly influenced by both market-level and organizational forces, and strongly influence a firm's success at achieving competitive advantage (Porter, 1985). However, the perceived importance of marketing as a strategic discipline has been diminished over the past decade (e.g., Day, 1992). Marketing has much to contribute to the strategy dialogue, including insights on market selection, construction of a customer value proposition, and business strategy implementation. We encourage other strategy and marketing scholars to work at this important interface.

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## Appendix

*Performance* (7 points, from 'Much Worse' to 'Much Better'): How has this business unit fared over the past 24 months? (Based on Babakus *et al.*, 1996)

Market performance:

- Sales growth compared to your major competitor.
- Market share compared to your major competitor.
- Sales volume compared to sales unit objectives.
- Market share compared to sales unit objectives.

Profitability:

- Profitability compared to your major competitor.
- Profitability compared to sales unit objectives.

### *Strategy Types*

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- Prospectors:** These businesses are frequently the first-to-market with new product or service concepts. They do not hesitate to enter new market segments where there appears to be an opportunity. These businesses concentrate on offering products that push performance boundaries. Their proposition is an offer of the most innovative product, whether based on dramatic performance improvement or cost reduction.
- Analyzers:** These businesses are seldom 'first-in' with new products or services or to enter emerging market segments. However, by carefully monitoring competitors' actions and customers' responses to them, they can be 'early-followers' with a better targeting strategy, increased customer benefits, or lower total costs.
- Low Cost Defenders:** These businesses attempt to maintain a relatively stable domain by aggressively protecting

their product-market position. They rarely are at the forefront of product or service development; instead they focus on producing goods or services as efficiently as possible. These businesses generally focus on increasing share in existing markets by providing products at the best prices.

**Differentiated Defenders:** These businesses attempt to maintain a relatively stable domain by aggressively protecting their product-market position. They rarely are at the forefront of product or service development; instead they focus on providing superior levels of service and/or product quality. Their prices are typically higher than the industry average.

**Reactors:** These businesses do not appear to have a consistent product-market orientation. They primarily act to respond to competitive or other market pressures in the short term.

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*Selling Strategy* (7 points, from 'Completely Inaccurate' to 'Completely Accurate'): How accurately do the following statements reflect your company (or division's) relationships with its customers? (Based on Heide and Miner, 1992)

The parties expect relationships to last a lifetime. It is assumed that renewal of agreements in relationships will generally occur. The parties make plans not only for the terms of individual purchases but also for the continuance of relationships. The relationship with our customers is essentially 'evergreen.'

*Internalization of Selling Activities* (11 points): Please circle the point (x) on the scale that best represents the proportion of sales (U.S. dollars) generated for your business unit by members of your own sales force as compared with independent sales representatives.

% Sales by Independent Sales Representatives

100%	90	80	70	60	50	40	30	20	10	0%
X	x	x	x	x	x	x	x	x	x	X
0%	10	20	30	40	50	60	70	80	90	100%

% Sales by Company's Sales Force

*Extent of Supervision* (7 points, from 'Strongly Disagree' to 'Strongly Agree'): To what extent do you agree with the following statements? (Based on Oliver and Anderson, 1994)

Sales supervisors make sure every salesperson knows what to do.

Sales supervisors stay in close contact with salespersons.

Sales supervisors rarely ask salespersons for information on how they are doing.

Sales supervisors don't have much contact with individual salespersons.

Sales supervisors here stay very well informed of salespersons' activities.

Salespersons typically feel very isolated from management.

Salespersons don't have much day-to-day contact with management.

Salespersons are subject to very little direction from management.

*Salesperson Control System* (7 points, from 'Strongly Disagree' to 'Strongly Agree'): To what extent do you agree with the following statements? (Based on Babakus *et al.*, 1996)

We provide performance feedback to salespersons on a regular basis.

We compensate salespeople based on the quality of their sales activities.

We use incentive compensation as the major means for motivating salespeople.

We make incentive compensation judgments

based on the sales results achieved by salespeople.

We reward salespeople based on their results.

We use nonfinancial incentives to reward salespeople for their achievements.

We compensate salespeople based on the quantity of their sales activities.

*Compensation* (11 points): Please circle the point (x) on the scale that best reflects the typical Commission to Salary compensation plan for members of the sales force in your business unit. (Based on Oliver and Anderson, 1994)

% Salary

100%	90	80	70	60	50	40	30	20	10	0%
X	x	x	x	x	x	X	x	x	x	X
0%	10	20	30	40	50	60	70	80	90	100%

% Commission

*Market Turbulence* (7 points, from 'Strongly Disagree' to 'Strongly Agree'): To what extent do you agree with the following statements?

Competition in our industry is cut-throat.

There are many 'promotion wars' in our industry.

Anything that one competitor can offer, the others can readily match.

Price competition is a hallmark of our industry. One hears of new competitive moves very frequently.

*Product Complexity* (7 points, from 'Strongly Disagree' to 'Strongly Agree'): To what extent do you agree with the following statements?

Most buyers would say that we and our competitors sell a technically complex product.

Our major product is relatively simple for most buyers to understand.